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A CRITICAL EXAMINATION OF THE
SPECIAL DEFENSE ACQUISITION FUND
THESIS

John M. Miller
Major, USAF

AFIT/GLM/LSM/86S-52

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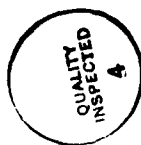
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A CRITICAL EXAMINATION OF THE
SPECIAL DEFENSE ACQUISITION FUND

THESIS

Presented to the Faculty of the School of Systems and Logistics
of the Air Force Institute of Technology

Air University

In Partial Fulfillment of the
Requirements for the Degree of
Master of Science in Logistics Management

John M. Miller, B.S., M.S.

Major, USAF

September 1986

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The purpose of this research was to present a synthesis and analysis of the objectives, performance, criticisms, and ongoing issues of the Special Defense Acquisition Fund.

I could not have accomplished this research without the dedication, expertise, and above all, enduring patience of my thesis advisor, Lt Col Fred Westfall. I am also forever in the debt of Dr. Lou Samelson of the Defense Institute of Security Assistance Management, for his overall knowledge of U.S. Security Assistance programs, and his invaluable insights into this research effort. A word of thanks is also owed to Mike Burgess, Mike Hirsch, Langley James, Lt Col Bill Leeper, Clive Luckenbill, Dr. Larry Mortsof, and Dick Reed who freely gave of their time and experience to provide valuable insights, comments, and opinions about the SDAF.

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John M. Miller

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Abstract

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This research combines a literature review and interviews to perform a synthesis and analysis of the Special Defense Acquisition Fund. The factors leading up to the creation of the fund were examined, along with the intentions of the various participants.

The implementing legislation, procedures, and "results" of the fund's efforts were presented. These sections set the stage for an analysis of four recommended changes: multi-year procurement, reobligation of sales proceeds, expansion to allow for major weapon systems sales, and procurement-for-payback. Combinations of the above changes were also discussed.

This analysis concluded that DSAA should strive to make the SDAF a truly revolving fund, as was originally legislated. This would require that multi-year obligation authority and reobligation of sales proceeds be enacted also. These changes would foster better management and operation of the fund.

A CRITICAL EXAMINATION OF THE SPECIAL DEFENSE ACQUISITION FUND

1. Thesis Overview and Introduction

Background

Military assistance has been a significant aspect of United States foreign policy since World War II, and has taken many forms and undergone numerous revisions during this time. Since the end of the Vietnam conflict, the emphasis has been more on materiel - and less on personnel - assistance. With this emphasis and given the broad scope of our entire Security Assistance Program, there are bound to be eligible aid recipients who do not get the items they desire when constraints are imposed by our government, such as budget limitations and the needs of our own forces. If peaceful coexistence among all countries was the rule rather than the exception, then individual shortages of military equipment would not be a concern to the United States. But this is not the situation, so in the course of providing limited amounts of military aid to many customers with an almost unlimited demand, situations often arise where aid, which was not previously granted or provided for sale, is urgently needed. For example, Lt. Gen. Ernest Graves, U.S. Army, former Director of the

Defense Security Assistance Agency (DSAA), stated in his March, 1981, testimony to the House Committee on Foreign Affairs,

Now, we have responded rapidly. Note the 1973 war in Israel. We moved to Israel in less than a month over 1 billion dollars' worth of materiel. That was an important response to the crisis of a country whose integrity we had guaranteed. . . . During a 1980 flare-up of tensions in the Middle East, the U.S. Government was asked for expedited delivery of DRAGON night sights, TOW missiles, REDEYE air defense missiles, and DRAGON missiles. A decision was reached not to provide these assets since they were in short supply in U.S. inventories. . . . Recent East Asian unrest led to a request for expedited delivery of M48 tanks, howitzers, and REDEYE missiles. Fifty of 150 tanks on order were diverted from Army stocks. However, no more could be spared due to unacceptable adverse impact. . . . A Mideast country requested arms from the U.S. to improve its readiness posture and capability to counter any threats presented by the Iraq/Iran War. Request for early delivery of TOW night sights was turned down based on the limited availability of the items to U.S. forces. A request for TOW missiles on an expedited basis was also turned down. (39:139,156)

Our responses differed in each case, but the major considerations behind these decisions were the same: equipment availability, needs of our own forces, and the actual situation - tensions or actual hostilities. Today there is an avenue open to the U.S. Government which provides the potential for a greater number of politically and militarily acceptable responses to these types of situations: the Special Defense Acquisition Fund (SDAF).

For several years the need for a mechanism such as the SDAF had been developing. According to Langley B. James, Deputy Chief, SDAF Division, DSAA,

U.S. national interest frequently dictates that we respond favorably to urgent foreign requests for rapid delivery of military materials. Some diversion from U.S. production or withdrawals from the

inventories of U.S. forces . . . is likely to occur in the future as they have in the past. (20:10)

Our support of Israel during the Yom Kippur War dramatically brought this point home, highlighting the effect urgent requests can have on our own forces' states of readiness. Also, according to the 1981 Legislative History,

For a variety of politico-military reasons, the United States has responded to urgent requests for security assistance-for example, to Yemen, to Jordan, to Thailand, to Oman, and to El Salvador. (30:2417)

The Department of Defense (DOD) first suggested an advance procurement plan in 1976, and again in the FY 1981 budget request. Congress turned these requests down, primarily because of the proposed method of funding. However, DOD and the State Department were successful persuading Congress to adopt an advance procurement plan, the Special Defense Acquisition Fund, in the FY 1982 defense budget proposal. (20:11)

The Special Defense Acquisition Fund was established under Section 108(a) of the International Security and Development Cooperation Act of 1981, which added Chapter 5 to the Arms Export Control Act, giving the SDAF authority to the Secretary of Defense. In cooperation with the Secretary of State, the Secretary of Defense was specifically authorized to establish the SDAF as a "revolving fund separate from other accounts," whose purpose was to finance the acquisition of defense items in anticipation of their sale to eligible foreign countries and international organizations, in accordance with the Arms Export Control Act, the Foreign Assistance Act of 1961, as amended.

(8:39) The objectives of the SDAF were threefold:

- (1) enhance the President's ability to react to foreign policy requirements involving security assistance by providing the capability to fulfill urgent needs . . . for military equipment while minimizing the adverse effect on the combat readiness of U.S. forces;
- (2) provide an effective means to assist in smoothing rates of production, thus increasing efficiency and reducing costs of both foreign and Defense Department weapons procurement;
- (3) reduce procurement lead times for delivery of weapons systems to foreign governments or, where items must be taken from U.S. forces, for payback to U.S. forces. (20:39)

Thus, the Special Defense Acquisition Fund was established with these three primary objectives, which form the nucleus of the fund's many activities. Understanding these objectives is central to this research, as will become evident later.

Research Problem

The initial research into the SDAF was quite frustrating, as there were no complete, authoritative sources on the subject. The Research Methodology, Chapter II, outlines how this research effort proceeded, synthesizing a literature review and personal interviews. As will be seen in the literature review in Chapter III, there are several sources which cover certain subjects, such as SDAF operating procedures, financial procedures, and recommended changes, but none which do a complete analysis. Further research, including interviews with those involved with the management and operation of the SDAF as well as with well-versed academicians, confirmed this initial observation: the existing research is complete only in the scope in which it was undertaken. There

is little question as to the intent and the objectives of the SDAF, but very little analysis of the fund's performance has been done, and virtually no research has contrasted the performance with the establishing objectives to see, for instance, if the fund is actually operating as it was designed or if its results were as anticipated. Likewise, while there have been many proposed changes since the SDAF was established, these have been largely uncoordinated and from a variety of sources. This research effort accomplishes what has not been heretofore done for the SDAF: it presents a synthesis and analysis of the objectives, performance, criticisms, and ongoing issues of the Special Defense Acquisition Fund. A series of research questions guides the overall research effort.

Research Questions and Outline

This research will be divided into three general areas, referred to as the historical background, present status, and ongoing issues. Within each area there are several questions which will be addressed.

The historical background section will essentially be covered in the literature review in Chapter III. The following questions will be answered:

- (1) What was the pre-SDAF environment and what spurred the fund's formation?
- (2) What was the intent of the various parties involved (Congress and DOD)?
- (3) How is the SDAF supposed to operate?
- (4) How much money has been obligated for procurement and how much has been sold through the SDAF as of the end of FY 1985?
- (5) What operating changes have been proposed and

which have been adopted since the SDAF was established?

Chapter IV, Findings and Analysis, will expand upon the literature review by analyzing the fund's present status and evaluating some recommended changes. First, in analyzing the SDAF's performance, the "results" of the first four years will be critiqued, as well as the guidelines and operating procedures under which the fund performs, and the following questions will be addressed:

- (1) Has the actual implementation of the SDAF been in accordance with the provisions of the Arms Export Control Act and the intent of Congress?
- (2) Has item selection been realistic? Are we buying what is needed? Are we selling what is bought?
- (3) Is the fund truly revolving; or, if not, will it be so in the foreseeable future?

Once the SDAF is evaluated in its present condition, the ongoing issues, which include recommended changes, can be looked at objectively. As will be seen, several changes have been proposed over the years, from several sources, and some have been proposed more than once. These proposed changes comprise the bulk of the ongoing issues section and will also be addressed in Chapter IV. Research questions to be answered include:

- (1) What changes have been proposed?
 - change the obligation authority from the present 1-year to 2-year or 3-year;
 - allow obligation of sales proceeds upon receipt, rather than waiting for the next year's obligation authority;
 - expansion to permit major weapon systems sales;
 - allow procurement-for-payback.
- (2) Are the proposed changes in agreement with SDAF objectives and Congressional intent?
- (3) How would management and/or operation of the SDAF be enhanced by these changes?

- (4) How widespread is the support for any/all of these changes?
- (5) What is the effect of the Gramm-Rudman-Hollings legislation?
- (6) How would the SDAF be enhanced by some combinations of changes?

After a complete analysis is performed, conclusions will be drawn and recommendations made. These will be presented in Chapter V, titled Conclusions and Recommendations. The following section will further define what will and what will not be covered in this research.

Scope and Limitations

The scope of this research will be on general concepts and operating principles. Certain aspects will be purposely avoided, although some specific data will be used for clarification and examples. These exclusions include: detailed sales breakdowns (who got what and for how much); readiness ratings and related forces status; specific procurement contracts; and all classified material. These exclusions are not necessary to understand the operation of the SDAF. The scope will be general in nature so as to avoid proposing any narrowly-defined exceptions.

The analysis will be limited to the results from Fiscal Years 1982-85. Fiscal Year 1985 is the last year for which there is definitive procurement data. Even though the FY86 procurements are not yet complete, some information from early in the fiscal year will be included. While there are hundreds of people involved with the SDAF, as will be detailed in Chapter II, only representative individuals were chosen to be

interviewed, because of the type of information sought and the subsequent interview format necessary.

Chapter Summary

This chapter provided the reader a basic understanding of why the SDAF was established and its objectives. How this research was conducted will be presented in Chapter II, Research Methodology, and the literature review will add further support for the purpose of this research, which is a synthesis and analysis of the objectives, performance, and ongoing issues of the Special Defense Acquisition Fund. The research questions for the background, to be found primarily in the literature review in Chapter III, and the performance and ongoing issues, which comprise most of Chapter IV, will provide the framework for this research to progress logically to the final chapter's conclusions and recommendations. Chapter II will present the research methodology.

II. Research Methodology

This research effort, which can be classified as a technical analysis, was accomplished through a literature review and by interviews. The research strategy, composed of these two elements, will become evident through a discussion of the literature review, the interview plan, and how the interviews were conducted. It is important to recall the purpose of this research - a synthesis and analysis of the objectives, performance, and ongoing issues of the Special Defense Acquisition Fund - as well as the research problem and questions that will frame this research. While this research strategy was generally guided by the purpose and research problem, the research questions primarily structured the literature review and interviews.

Literature Review

In exploring this subject, the literature search was the obvious first step. As will be seen, the "literature search [did] provide excellent background on the areas of interest and [did] supply a number of good leads." (17:62) Existing literature sufficiently answered all but one of the research questions previously identified as essential to the historical background of the SDAF. These questions will be reiterated below and used to outline the literature review.

What Was the Pre-SDAF Environment and What Spurred the Fund's Formation? Congressional records and witness testimony from them was used in response to this question, as well as extensively throughout the literature review. The major sources were hearings before the House of Representatives, both the Committee on Foreign Affairs and variously titled subcommittees. These hearings contained prepared statements, direct testimony, and responses to committee members' questions, posed to involved participants. These hearings will henceforth be referred to as "Hearings," followed by the fiscal year which the hearings preceded; for example, "Hearings FY82" refers to hearings held in 1981 precluding legislation which became effective in FY 1982.

With respect to the pre-SDAF environment, Hearings FY81 and FY82 are the primary source documents. These are supplemented by Langley James's article, "The Special Defense Acquisition Fund: An Initiative to Improve FMS Weapons Management," and a DSAA Point Paper prepared for Congress in April, 1981, edited by Colonel C. Duncan Beaumont. (This paper contained the background material for those testifying before Congress) For the purposes of this research, the pre-SDAF environment, as presented to Congress, provided sufficient background for the fund's establishment and foretell's its intentions.

What Was the Intent of the Various Parties Involved (DOD and Congress)? The intentions of the various participants in the SDAF's establishment were widely reported in 1981; however, reiteration and some clarification have been voiced on an almost yearly basis. Usually, "intent" is difficult to establish, but

not so in this case. The two main parties are the Department of Defense which includes the Military Departments, Defense Security Assistance Agency, Joint Chiefs of Staff, and Office of the Secretary of Defense; and Congress which includes both Houses and their respective committees and subcommittees. The Department of State is also a major participant, but in reality and for the purposes of this research, its views will be treated as essentially the same as those of DOD. The parties' initial intentions were quite clear and reiteration has been necessary, apparently, due to differences in interpretation of the law. The following literature will support answers to this important research question:

United States Code Congressional and Administrative News, 97th Congress-First Session, 1981, U. 3;
Hearings FY82, FY83, FY85, FY86-87;
House of Representatives Report No. 99-39 (1984);
United States Senate Report No. 99-34 (1984);
The above-mentioned article by Langley James; and
"FY 82 Security Assistance Legislation," by Dr. Louis J. Samelson.

Once the parties reached agreement for the SDAF, it was formally established and its objectives became a matter of law.

How Is the SDAF Supposed to Operate? Before delving into the fund's actual performance, one must comprehend how the fund is supposed to operate. As will be seen, actual legislation does not dictate formal operating procedures; rather, Congress affirmed DOD's proposal for the fund and left DOD to establish the fund within the aforementioned objectives. The result of DOD's subsequent efforts was the SDAF Charter and Operating Instructions. In Langley James's article, a general overview of SDAF procedures is also presented, while the

Security Assistance Management Manual, Chapter 14, goes into great detail on these procedures. Several other articles either briefly mention certain aspects of the operation or concentrate on a specific subtopic, such as payment procedures. These sources include:

- "Special Defense Acquisition Fund by Tom Brozovich, which deals with the financial aspects of the SDAF;
- General Accounting Office Report NSIAD-85-18, Design and Operation of the Special Defense Acquisition Fund Can Be Improved;
- House of Representatives Report No. 99-39 (1984);
- United States Senate Report No. 99-34 (1984);
- United States Army Logistics Evaluation Agency Report Special Defense Acquisition Fund (SDAF) Requirement, which describes an item selection methodology;
- "Security Assistance Funding and Program Authorizations for Fiscal Year 1986" by Dr. Louis J. Samelson;
- General legislative references from the Congressionally-sponsored Legislation on Foreign Relations Through 1984; and,
- U.S. Army Security Assistance Center Memorandum referencing SDAF instructions and procedures.

The procedures described in this section of the literature review, for the most part, have been followed by the participants since the SDAF was established. Through these procedures the fund has performed for over four years, producing some interesting results.

How Much Money Has Been Obligated for Procurement and How Much Has Been Sold Through the SDAF Through the End of FY 1985? The answers to this question come mainly from the Congressional Presentation Documents (CPDs), which are the Security Assistance reports required by and given to Congress each year. Contributory information will be obtained from Mr. James's articles; a January, 1986, electronic message from the

Secretary of Defense which details the SDAF inventory status and from Hearings for FY 84-85 and FY 85. In this section, only the results will be presented. Memoranda and electronic messages will also be referenced. Criticisms, accolades, and other comments will be saved for Chapter IV. However, in the final section of Chapter III, recommended changes based on procedural experience and results, will be detailed.

What Operating Changes Have Been Proposed, and Which Have Been Implemented, Since the SDAF Was Established? Literature relating to this subject can best be described as sketchy. Whereas in the other areas the sources were very consistent, almost predictable, here there is little consistency from year to year or even from agency to agency. Most of the proposed changes can be found in government documents, as these proposals have worked their way through appropriate channels: a GAO report; a Memorandum from DSAA to USAF concerning recommended changes; and Hearings from FY83, FY85, and FY86-87. Some of these can also be found in Mr. James's article and Dr. Samelson's 1986 article. However, these changes also represent unresolved, ongoing issues; and these are also not the only possible changes. For example, the combination of a GAO recommendation and one put forth by DSAA might represent a more appropriate change than each recommendation separately. Therefore, the interviews were conducted to bring the issues up to date and fill in the gaps left by the literature search.

Interview Strategy

To answer the research questions and fulfill the purpose of this research, it was necessary to develop a strategy which would allow the researcher to determine how the SDAF is actually managed as well as the future of the fund. These questions were not completely answered by the literature review. The need for opinions, attitudes, and expectations indicated that a survey approach was most practical. (17:158) For this research, the logical starting point was with those actively involved in the SDAF's daily management and operation, DSAA and appropriate representatives of the Military Departments. Since the results of this sampling are very subjective, the benefits of personal interviewing outweigh those of any other sampling techniques. These benefits include "the depth and detail of information that can be secured," versatility in questioning, such as to probe for more detail or to clarify a response, and the interviewer can adjust to the language and conditions of the interviewee. (17:160-1)

Also, the questions do not favorably lend themselves to a mail-type survey. The researcher concluded that the bureaucratic approval process, excessive time delay, and the possibility of non-response could not be overlooked or risked. This is especially important when one also considers the limited size of the sample population.

Two major problems, bias and cost, must be dealt with in personal interviewing. Bias can be minimized, but not eliminated, by using a motivated interviewer who is aware of

potential problems and how to overcome them, and by using a well-constructed interview guide. (17:161, 212-4) Bias was dealt with by using a pre-tested interview guide and the researcher as the interviewer. For some, telephone interviews, rather than personal interviews, were done as a cost-saving measure. This was most convenient for all involved and no loss of responsiveness or objectivity was evident.

Preliminary research indicated only a small sample of persons knowledgeable of the SDAF. These include those who work with the SDAF and those who have become academically involved: researchers, instructors, consultants. Due to the relatively unique nature of this subject and the small available population, only one interview guide was developed.

The Instrument and Interview Plan

The interview guide (see Appendix A) was designed to ascertain the respondents' perceptions and opinions of current issues, performance, and the future of the SDAF. The guide consisted of an introductory section and the questions. The introduction explained the purpose and objectives of the research and interview, respectively. How the information was to be used and what was expected of the interviewee was also outlined. The contents of this section were conveyed to each interviewee prior to the interview so as to improve receptiveness. (17:162) The respondents were also afforded the opportunity to request non-attribution, either in part or in whole. The researcher felt this option would help remove any of the respondent's reservations. The final portion of the

introduction was the collection of personal background data.

The interview questions themselves were designed to provide starting points for discussions. The aim was to get the respondents to discuss the SDAF in detail. This type of questioning is best suited for unstructured interviewing. (17:203) Although the Interview Guide lists a structured set of questions, these led to other questions, as desired, which varied from respondent to respondent. The four decision areas of question construction identified by Emory were considered in designing the questions. Question content paralleled the research questions previously identified. However, the scope of the questions was narrowed for the interviews to minimize the responses' content. By using the researcher as the interviewer, confusion over vocabulary and/or question clarity was corrected on the spot. The possible problems of unwarranted assumptions, biased wording, and personalization are minimal in the interview-type survey. The response structure was designed to be "free responses . . . in which the respondents express themselves extensively," since support of the research objectives required opinions, suggestions, and probes for further information. Finally, the question sequence flowed from general to specific, and was arranged chronologically, in a "then-now-future" pattern. (17:207-223) Once the interview guide was constructed and validated, the interviews were given.

Conducting the Interviews

The interviews were conducted both in person and by telephone. The questions were provided to the respondents in advance, and at the start of each interview the purposes of the research and interview were reiterated. The interviewer also reiterated how their responses would be used. A list of the individuals who participated in this research is contained in Appendix B. Several respondents requested anonymity, either in part or in whole, and were afforded that consideration. Most responses are presented as aggregate opinions, conclusions, etc.

The formal interviews were held during the first two weeks in August, 1986. It should be noted that a separate telephone conversation was held with Mr. Langley James in November, 1985. This conversation covered procedural aspects that were not available to the researcher at that time. He is often cited in this regard; but, one should not confuse that informal discussion with the interviews mentioned here. The interviews led, in all but one case, to further questions and detailed discussions of certain topics. As was previously mentioned, the structured questions were designed to provoke further discussions. In sum, the interviews provided the researcher with some interesting insights, explanations, and perceptions about the SDAF. These fulfilled their objectives of filling the gaps in the literature review and providing current information.

III. Literature Review

The need for the Special Defense Acquisition Fund has become more apparent as the United States's role in foreign affairs has expanded. This statement - that the United States plays a major and active part in the foreign affairs arena - will be assumed to be a "given," and the pros and cons of any foreign policy decisions will be left to others to debate. What will be developed in this chapter is how the SDAF came to be an instrument of foreign policy and how it is designed to operate. The literature review will provide the background information for the main aspect of this research, the analysis of the SDAF, which will be presented in the following chapter. The essence of the SDAF can be ascertained by reviewing its background and establishing legislation.

Pre-SDAF Environment and Establishment

Congressional records and Langley James's 1984 article provide sufficient background into the need for what became the Special Defense Acquisition Fund. James L. Buckley, then Under Secretary for Security Assistance, Science and Technology, Department of State, in his prepared statement to the House of Representatives Committee on Foreign Affairs, Subcommittee on International Security and Scientific Affairs on March 19, 1981, stated,

We now face a serious dilemma when a foreign military sales purchaser requests or requires

delivery in less than normal procurement lead time, which may for some items last from 3 to 4 years. Either we must turn down the request at the expense of our security interests and those of our friends, or we accede and are forced to divert equipment from U.S. forces.

Our experience over the past 5 years indicates that it is practical to project the need for, and procure items for which (1) there will be a high demand from foreign purchasers and (2) U.S. Service stocks are in short supply. (39:92)

Lt.Gen. Graves was able to provide the committee with the details supporting the above statement. While noting our rapid response to Israel in 1973, General Graves went on to include the following "other side" of that endeavor:

But you know where it [the materiel we supplied] came from, straight out of the U.S. Army, the U.S. Navy, and the U.S. Air Force. We were 3 years recovering from that. In fact, General Myer, the Army Chief of Staff, will tell you we still have not recovered entirely from the necessity to do that. (39:139)

In the Background section of Chapter I, General Graves mentioned the three situations where we were unable to fully respond to urgent requests. That citation was part of his response to Subcommittee Chairman Clement J. Zablocki's question, "Can you cite any examples wherein the lack of such a stockpile [of equipment likely to be required] in the past has precluded the U.S. Government from responding to a national security need?" After giving these examples General Graves summed up his response:

Although . . . full-scale hostilities did not occur, for the countries involved, the situation represented a serious threat to their interests. Moreover, had hostilities broken out we would have been unable to respond to their needs without degrading the combat readiness of our own forces. It is this sort of recurring dilemma that the SDAF is designed to alleviate or resolve. (39:156)

There have been instances, however, when we did respond to urgent security assistance requests: Yemen, Jordan, Thailand, Oman, El Salvador, Pakistan, and Lebanon were specifically mentioned by Langley James, and he alluded that there were others. (20:10) Also, the idea of preparing for such occurrences was not new. Prior to the establishment of the SDAF, legislation prohibited spending without a sales agreement in hand, and required "payment in advance and full cost recovery on an individual sales basis." DOD requested an SDAF-type fund of \$300 million in its FY 1976 budget, but was rejected by Congress. Again, in FY 1981, \$48 million was requested to procure artillery and vehicles needed by the Army, but tagged for transfer to meet emergency needs. "Congress denied this request, seeing it as underwriting foreign assistance in the DOD budget, and thus, in competition with high priority needs of U.S. forces." (20:10-11)

Valuable insight into the intentions and purposes of Congress can be seen by looking at the FY 1981 request, called the Special Contingency Stockpile. There were actually two related items in the administration's FY 1981 proposal. First, there was the proposal "to amend section 506(a) of the Foreign Assistance Act to increase the drawdown authority from the current \$10 million to \$50 million to meet emergency military assistance demands." (40:vii) This law authorized the President to withdraw, from stocks, defense articles and services for emergency military assistance. The second request was contained in the DOD budget: \$46.6 million "of Army

procurement funds for a special contingency stockpile of weapons and equipment to meet urgent military assistance demands without drawing upon stocks held for other purposes."

(40:166) Over five years this stockpile was expected to amount to \$500 million worth of equipment, according to Secretary of Defense Harold Brown. The Subcommittee on International Security and Scientific Affairs to amend the International Security and Development Cooperation Act of 1980, recommended approval of both proposals. The Subcommittee did this despite extensive discussions about Congressional notification and/or prior approval for use of stockpiled equipment. (40:166-7)

However, regarding the stockpile proposal,

. . . the committee expects that any transfers from this special contingency stockpile will be made only after consultation and approval of the committee which is consistent with section 506(a) of the FAA and which remains the law under this section. (40:viii)

Nonetheless, the full Congress did not approve the stockpile request, as noted above, but did approve the increase to \$50 million drawdown authority. An important insight into the real concern of the committee is evidenced, however, and that is the Congressional desire to retain control over foreign assistance. The impact of drawdowns and foreign military assistance on the readiness and status of U.S. forces was debated only briefly, and became a secondary consideration of this committee.

The FY 1981 request was brought up in the FY 1982 hearings. The witnesses reiterated that past Congressional opposition was primarily on budgetary grounds, not on a basis

Act (AECA), giving the SDAF authorization to the Secretary of Defense. In cooperation with the Secretary of State, the Secretary of Defense was authorized to establish the SDAF as a "revolving fund separate from other accounts," whose purpose was to finance the acquisition of defense items in anticipation of their sale to eligible foreign countries and international organizations, in accordance with the AECA, the Foreign Assistance Act of 1961, as amended. (8:39) The objectives of the SDAF were threefold:

- (1) to enhance the President's ability to react to foreign policy requirements involving security assistance by providing the capability to fulfill urgent needs . . . for military equipment while minimizing the adverse effect on the combat readiness of U.S. forces;
- (2) to provide an effective means to assist in smoothing rates of production, thus increasing efficiency and reducing costs of both foreign and Defense Department weapons procurements;
- (3) to reduce procurement lead times for delivery of weapon systems to foreign governments or, where items must be taken from U.S. forces, for payback to U.S. forces. (8:39)

Initial Funding and Financial Overview

The Executive Branch also advanced funding proposals. These included Foreign Military Sales (FMS) monies which were usually credited to the U.S. Treasury Miscellaneous Receipts Account 3041, which totaled over \$300 million in FY 1980. These accounts included,

- (1) nonrecurring RDT&E and production charges . . . on a pro rata basis;
- (2) asset use charges . . . to recoup the cost of any DOD plant/equipment used in production or delivery;
- (3) contractor rental payments which are facility charges made under provisions of the Use and Charges Clause of the Defense Acquisition

Regulation; and,
(4) collections from sales of defense articles not
intended to be replaced in stocks. (2:21)

Also, according to Tom Brozovich, Plans and Policy
Division, Security Assistance Accounting Center (SAAC, the
designated financial "overseer" of the SDAF), this funding
arrangement would mean that the acquisitions would not require
any direct DOD appropriations. However, when the SDAF was
established, the last proposed account - sales of articles not
intended to be replaced - was to remain as a credit to the
Miscellaneous Receipts Account 3041 (until FY 1983). But,
direct appropriations were authorized. (2:21)

These accounts were to be used for capitalization of the
fund, through time, but a Congressional appropriation was
requested to implement the SDAF. "The 1981 Act authorized
capitalization levels of \$300 million in FY 1982 and \$600
million in FY 1983." (20:12) This was later increased to \$900
million in FY 1984 and \$1.0 billion in FY 1986. But the amount
that could be obligated in each year was, respectively and in
millions, \$125, \$125, \$225, \$325, and \$311. (36:327) Public
Law 97-252 of 8 September 1982, which increased the
capitalization level to \$900 million, also permitted the
respective Military Departments (MILDEPS) to use SDAF-financed
items if there was no FMS customer. This was under the
provision that the MILDEP "pay for all operations/maintenance
costs as well as restoration or replacement costs" should there
be a subsequent eligible customer. More will be said about
this policy later. Nonetheless, despite the aforementioned

appropriations request to start the fund, on 2 February 1982, a memorandum from the Office of the Assistant Secretary of Defense, Comptroller, spelled out the official start of the SDAF. This memorandum stated that the "SDAF would be capitalized with eligible FMS case collections received after 29 December 1981," and the Defense Security Assistance Agency (DSAA) would be "responsible for overall program management." (2:22) Thus, the fund was initially capitalized using FMS case collections, not appropriated funds. The SDAF was set to get into operation.

The Fund in Operation

Once the SDAF was established, capitalized, and authorized to obligate funds, it could begin to serve its purpose of procuring defense articles in anticipation of their sale to foreign governments. The fund also had the goal of delivering the articles in less than normal lead times. However, a method of operation, procurement criteria, and program implementation guidelines needed to be established. DSAA has set down these guidelines in the SDAF Charter and Operating Instructions, as well as in the Security Assistance Management Manual (SAMM), DOD S105.38-M, Chapter 14. While DSAA manages the SDAF, DOD components perform most of the tasks involved in the procurement process, including planning, contracting, contract management, case management, and accounting for SDAF monies. (10:14-1)

Operation of the SDAF appears to be a logical blend of FMS and MILDEP acquisition procedures. An annual procurement plan is developed by DSAA following consultation with the State Department, JCS, and the MILDEPS. The objectives of the SDAF spell out what the SDAF should address: items of potentially high FMS demand that are at a low (relative to other items) inventory level; items that will assist in smoothing production rates; and items that will reduce procurement lead times. These guidelines are given to the MILDEPS in a tasking letter from DSAA, with the additional instructions that the items must be releasable for sale, must be in the inventory (except those items that are specifically modified for foreign sale), and the total request cannot exceed the SDAF obligation authority for that year. DSAA then makes a draft procurement plan after considering additional inputs from the State Department: the five-year country plans, desk officer inputs, and an historical analysis of sales requirements. The MILDEPS also provide withdrawal and diversion histories of proposed sales items. The Director, DSAA, Lt Gen Gast, USAF, then approves and/or modifies the proposal, after which it is returned to the MILDEPS for review. The final procurement plan is prepared and forwarded by DSAA, with the MILDEPS' recommendations attached, to the Director for final review and approval. Final approval, however, rests with Congress. (21)

Once the decision to buy an item is made, "DSAA issues a Military Interdepartmental Purchase Request (MIPR) . . . to the appropriate MILDEP to procure the item." (10:14-2) Under

normal operating circumstances, a foreign purchaser will have concluded a purchase agreement and paid the SDAF prior to delivery of the item to the U. S. government. Then, when the item is ready for delivery, it is delivered directly to the foreign purchaser, and in less than the normal procurement lead time. Otherwise, the item could be sold to the Military Department. However, to a large extent, the success of the SDAF depends on its planning, especially on the planners' abilities to anticipate foreign requirements.

Criteria for Procurement

While no single criterion, supposedly, is more of a determinant than any other, the "emphasis is . . . placed on items that are in short supply for U. S. forces that also have anticipated foreign customer requirements." (10:14-2) The possible dilemma of choosing between an ally's urgent need and our own requirements might be frequently unavoidable if this option (SDAF procurement) was not available. Thus with the procurement emphasis, several criteria were established:

- (1) Items . . . most likely to be needed to meet foreign requirements in less than normal procurement lead times.
- (2) Items whose withdrawal from . . . inventories, or diversion from production [would] result in adverse impact on the combat readiness of U. S. forces.
- (3) Items capable of being produced from existing or expanded production lines.
- (4) Items which are required to meet established acquisition objectives of U. S. forces.
- (5) Items which have significant anticipated FMS demands.
- (6) Items with long procurement lead times, particularly over 24 months.
- (7) Items which are approved for foreign sale under current national disclosure policy. (12:1-2)

These criteria are those listed in the SDAF Charter, and have remained essentially the same through the January, 1985, version of the Security Assistance Management Manual.

Procurement Procedures

SDAF procurements are "processed generally in accordance with DOD Federal Acquisition Regulation (FAR) Supplement, Subpart 8.70 - Coordinated Procurement." If separate contracts are not possible, SDAF procurement will be on separate contract line items. (10:14-3) FAR 25.7303 applies to notifications, and FAR 25.7304 applies to pricing. The manual also covers billing procedures, pricing elements, and reporting requirements. One procurement obstacle is the one-year obligation authority. Contract awards have been missed due to administrative problems and the end-of-year (FY) time constraint. (18:3) Also, in FY 86, the SDAF sat idle for nearly three months, awaiting its obligating authority contained in the budget. (21) Planned reprogramming in August of each year is a hedge against losing unobligated funds, and is typically used to procure ammunition that was originally requested, but not procured for this very reason. There are no other noteworthy exceptions to SDAF item procurements.

Changes Enacted

For implementation in FY 86 Congress has enacted one change to the SDAF operating concepts: "authority for DLA to use the SDAF to acquire defense articles to meet unplanned foreign support requirements." (27:28) The Congress also did

not limit the amount of SDAF monies that could be used for this purpose:

The fund may be used to keep on continuous order such defense articles and defense services . . . for the common use of all military departments in anticipation of the transfer . . . to foreign countries and international organizations. (27:28)

The capitalization level has been raised to \$1 billion for FY 1986, where \$1.5 billion was requested, and the obligation has been set at \$325 million. (27:29) This has since been reduced by nearly \$14 million to just over \$311 million due to the 4.3% reduction called for by the Gramm-Rudman-Hollings legislation. (36:327) Even though there are no direct appropriations for the SDAF, reductions under this act apply to obligations. This represents the first year the obligation authority has decreased.

FY 1982 Through FY 1985 Results

The "results" are in for the first four years of operation. In FY 1982, \$125 million was provided for initial procurement on 10 September, 1982, only twenty days before the end of the fiscal year. To avoid losing the funds, DSAA issued ten MIPRs to the Army and Air Force. Materiel was ordered by adding-on to existing contracts for M60A3 tanks, MAVERICK and I-TOW missiles, and AN/TPS-70 radars. This amounted to a total obligation of \$109.2 million. (2:22) From these obligated funds the Army returned \$10.2 million to the SDAF from savings made on the tank and ammunition contracts. (6:47) The best summary of SDAF operations comes from Hearings on Foreign Assistance Budget Request for Fiscal Year 1987 and the

"Balanced Budget and Deficit Control Act of 1985". Part of the table presented to the House Committee on Foreign Affairs by Secretary of Defense Casper Weinberger is reproduced below:

CURRENT STATUS OF THE SDAF
(In Millions)

	FY 1982	FY 1983	FY 1984	FY 1985	FY 1986	TOTAL
Authorized increment of capitalization	300	300	300	000	100	1000
Authorized obligation level by Congress	125	125	225	325	311
Obligations by SDAF (on contract)	97	113	207	302	6	725
Management reserve	28	12	18	23	
Disbursements by SDAF (Against contracts)	97	86	66	22	0	271
Allocated (earmarked) for countries	5	16	111	163	6	301
Sold to countries (LOAs signed) by program year	92	84	32	6	0	214
Collected into SDAF (against LOAs) from countries	13	61	11	0	0	85

*No added capitalization was requested in FY 1985 because the authorized obligation level was well below the cumulative capitalization ceiling.

*Congress authorized \$325 million in obligation authority in FY 1986, but that was reduced by a 4.3% (\$14 million) Gramm-Rudman cut.

*No sales were made in FY 1982/83; this was the 13 months of the "start up" of the program.

(36:327)

While providing several examples, Secretary Weinberger summarized the historical results of the fund:

By relying upon SDAF assets to meet delivery dates to friendly countries or to replenish U.S. stocks in shorter than normal procurement lead times, the SDAF has supported security assistance objectives and minimized the adverse impact from diversion of U.S. equipment. (36:328)

The Congressional Presentation Document for FY 1986 reported, with deliveries made during FY 1984 completed,

several were delivered

. . . at less than normal lead times, have supported security assistance objectives and minimized the adverse impact from diversion of U.S. equipment. . . . For several items, U.S. defense production was significantly enhanced. . . . Some acquisitions were large enough to result in significant cost savings. (5:50)

A total of \$725 million has been obligated from a total obligation authority of \$1111 million. (This includes the FY 86 obligation authority of \$311 million; however, only \$6 million has been obligated as of this research) Of this, \$515 million worth of equipment has been either sold (\$214) or earmarked (\$301) for sale to foreign countries. Recall that the lead time for many of these items is three to four years, and most of the items purchased are also used by U.S. forces. However, this is not the case for two Air Force-procured items: the AN/TPS-70 radars and the MAVERICK missiles - 'B' models. While the planning has been generally sound, other problems are detracting from SDAF operations, and most of these have been mentioned in conjunction with proposed changes.

Recommended Changes

Langley James has suggested "using the SDAF on an exceptional basis to fund an increment of 'new system' production capability." DSAA could anticipate where an urgent foreign requirement would parallel our own and plan accordingly. By adding a surcharge to the SDAF procured items, the extra cost of increased production would be covered, which would be similar to "current recoupment of nonrecurring production costs." (20:13)

One of the most noteworthy studies was done by the General Accounting Office in response to a Congressional inquiry. The GAO suggested three changes to improve the fund's efficiency:

- (1) Grant a 3-year obligation authority rather than the current 1-year authority. This would allow SDAF to be better coordinated with the services' weapons procurement process.
 - (2) Allow SDAF to obligate the proceeds of a sale in the year in which the sale is made rather than waiting until authority is approved in the following year.
 - (3) Allow SDAF to purchase equipment not approved for release to foreign countries. This would allow foreign needs to be met by withdrawing releasable equipment from military service stocks and replenishing these stocks with the advanced nonreleasable versions procured by the SDAF.
- (18:1)

Note that the final recommendation is very similar to that proposed by Mr. James. The one year obligation authority restricts the fund's use to the year in which it was obligated, and as will be seen in Chapter IV, this "cost" the SDAF, in at least three instances. (18:3-4)

The second change would allow the SDAF to make additional procurements without waiting for Congressional authorizations: i.e., the SDAF could "capitalize" on opportunities as they present themselves rather than waiting for Congress's next authorization.

The final recommendation addresses the fact that SDAF "replacement-in-kind procurements [are] restricted to weapon systems that are presently releasable to foreign countries." (18:5) Also referred to as procurement-for-payback, this

would enable the SDAF to be used to procure front-line weapon systems. Although such systems would be ineligible for release to foreign governments, the systems would serve to replace items

drawn from U.S. service stocks for foreign sales.
(27:28)

As will be explained in Chapter IV, the procured systems could be salable items. There is a risk in buying older generation equipment: the items might be obsolete by the time they come out of production. Also, many countries won't order outdated items or items not in U.S. inventories. Yet we often face the dilemma of supporting foreign countries with items withdrawn or diverted from our own forces. With this type of rationale, the GAO concluded,

If SDAF could purchase advanced systems not yet releasable to foreign governments, SDAF could simultaneously improve U.S. force readiness and make equipment available for transfer. (18:5)

In other words, through SDAF we could transfer either a releasable version, or the equipment that is already being used but slowly being phased out of our inventory.

Chapter Summary

The existing literature has provided an excellent background of how and why the SDAF came into being. The established procedures and policies make the SDAF a useful tool of foreign policy. However, there have been criticisms of some of these policies and of some of the procurement decisions. In Chapter IV this research will take a more critical look at the operation of the fund to date, and then evaluate some of the aforementioned proposed changes. In addition to using published sources, extensive support will be provided by the interview results.

IV. Findings and Analysis

Introduction

Some of the individuals interviewed suggested that it is too early to critique the performance of the SDAF. Others did not. While the first three years were essentially building years, the last two could be called "fully funded," in that the capitalization level has been relatively stable (there was an increase of \$100 million in FY86, for a total capitalization level of \$1.0 billion). However, a complete turnover of procured items takes three to four years, so from that perspective it would, perhaps, be too soon to evaluate the SDAF. Yet this analysis is not solely interested in sales and turnover. As noted in Chapter II, this chapter will analyze the SDAF as it is now in terms of the following three areas:

- (1) Has the implementation been in accordance with AECA provisions and Congressional intent?
- (2) Have item selection, procurement, and disposition (sold or stored) been necessary, realistic, and as anticipated?
- (3) Is the fund truly revolving?

The subject of changes will be addressed in light of the fund's present status, as seen by this research. Four changes will be presented: multi-year obligation authority; obligation of sales receipts during the same fiscal year they were received; expansion to allow for major weapon systems sales; and procurement-for-payback. Three questions will be used to analyze these proposed changes:

- (1) Is the change in agreement with the SDAF objectives and Congressional intent?
- (2) How would the change benefit SDAF operations,

- performance, or management?
- (3) Does this change appear to have any chance of enactment?

In the course of the analysis, it must be recalled that the aforementioned Gramm-Rudman-Hollings legislation will effect future levels of obligation authority, as was seen with the FY 86 authorization. Finally, this chapter concludes with an analysis of some combinations of the above-mentioned changes. Before one can suggest changes, however, one must examine the present situation.

Analysis of the Present-Day SDAF

Implementation. In this regard the subject of "intent" will be analyzed by comparing the Arms Export Control Act provisions, Congressional intentions, and the SDAF Charter and Operating Instructions. The intent of Congress is an important consideration since Congress ultimately decides if the SDAF continues, expands, or ceases. An initial point of departure for this analysis is to answer the question, "Has the SDAF been established so as to conform to the AECA's general provisions and within the intent of Congress? Recall from the literature review that the SDAF was established under Section 108(a) of the International Security and Development Cooperation Act of 1981, which added Chapter 5, "Special Defense Acquisition Fund," to the AECA. Does this chapter, in fact, adhere to the general provisions of the AECA?

The answer to this question requires some judgmental inferences, but is readily apparent. Consider the following provisions from the AECA:

- (1) AN ACT To consolidate and revise foreign assistance legislation relating to reimbursable military exports;
- (2) . . . it remains the policy of the United States to facilitate the common defense by entering into international arrangements with foreign countries which further the objective of applying agreed resources of each country . . . to achieve specific national defense requirements and objectives of mutual concern. To this end, this Act authorizes sales by the United States Government to friendly countries having sufficient wealth to maintain and equip their own military forces at adequate strength;
- (3) It is the sense of the Congress that all such sales be approved only when they are consistent with the foreign policy interests of the United States;
- (4) Defense articles and defense services shall be sold . . . to friendly countries solely for internal security [or] for legitimate self-defense. (43:205,206,213)

Summarized, the AECA's general provisions authorize sales intended for internal security or self-defense, and must be consistent with and in the best interests of United States foreign policy. The purpose of the SDAF, as taken from its Charter, below, clearly falls within these provisions:

The SDAF procures military items in anticipation of their sale or transfer to foreign governments and international organizations, thereby, providing for the delivery of military hardware ahead of normal procurement lead times. In so doing, the SDAF enhances the U.S. Government's ability to fulfill U.S. national security objectives by satisfying urgent military requirements of allied and friendly nations, while avoiding diversions from production meant for U.S. forces, or withdrawals from U.S. stocks. (12:1)

Following from the purpose are the three objectives and the seven criteria for procurement, both mentioned in the literature review. These guidelines of the SDAF easily fall within the general provisions of the AECA. But an even more important issue to address here is the intent of Congress, who

retains ultimate control over the fund.

As noted in Chapter III, Congress did see the need for "a way to finance procurement in anticipation of foreign requirements," but seemed more concerned with maintaining its control over security assistance. This is justified by the simple fact that the SDAF was established, and under the same basic rules, including approval of all sales, as other defense equipment sales. The fact that the Congress rejected the idea of the Contingency Stockpile only implies that it is against stockpiles. (39:155) However, all those interviewed for this research agreed that the intent of the SDAF itself was in some way related to readiness: to reduce withdrawals and diversions of U.S. forces' equipment in time of emergency; to reduce lead times for both the foreign customer and U.S. forces (replacements); and to show U.S. support and improve relations in the political arena. Required reporting to Congress, as stated in PL 97-113, might imply that sales are more of a Congressional concern, as three of the four subjects are what is sold, what was procured, and what is planned to be procured. The other requirement asks for the impact of the SDAF on defense production and readiness. (30:1524) It is the researcher's opinion that the law reflects only Congressional desire to maintain control, and this can be done by knowing what is to be procured and sold. Hearings and subsequent legislation show no evidence of disagreement over the issues of readiness, stockpiling, etc. In essence, the general purpose of the SDAF and how it was designed to operate are not a point

of contention among the parties involved.

The interviews also support this conclusion. Only two respondents thought the intent of the SDAF had changed since 1981. Their concern was that sales had become a primary objective rather than readiness. In essence, they perceived that items were procured because of their potential to sell, more than their potential to reduce the readiness impact an emergency situation might cause. These two individuals saw the need to increase procurements of items that would most likely be withdrawn or diverted in an emergency, even if that was not the case in the absence of an emergency. These responses bring to light an internal dilemma: with only so much money to spend, do you buy items that are needed and will sell, or do you buy items that will probably be needed but might not sell right away? Items that do not readily sell go into inventory and could constitute a stockpile.

Selection, Procurement, Disposition. How DSAA interprets the intention of the SDAF is an important carryover from the preceding section as far as item selection is concerned. According to the Charter, for item selection, "emphasis is placed on items that are in short supply for U.S. forces that also have anticipated foreign customer requirements." While no single criterion guarantees selection, the criteria for selection are consistent with the purpose of the SDAF and have remained as originally drawn up in the Charter. These criteria were previously listed in Chapter III.

When asked what they considered to be the most important

objective, the interviewees were split, with five responses favoring items that would reduce the impact of diversions and withdrawals, and three supporting items that were in demand by eligible foreign customers. In fact, one individual stated, "If you can't sell it, there ain't no reason to buy it." Nonetheless, both of these responses generally "fit" the selection emphasis cited above. This does not mean to imply that the "wrong" items have not been selected, nor that all agencies agree with all the procured items. Appendix C contains a summary of the proposed and actual procurements, taken from the Congressional Presentation Documents, for FY82-FY86. This research, primarily as a result of the interviews, has indicated that disagreements over item selection are largely the result of individual assessments of the procurement criteria, and to a lesser degree, agency/service bias. For instance, individuals who saw the impact of diversions and withdrawals as the primary procurement criterion criticized procurements of items with no diversion/withdrawal history over items with such a history that were not, in their view, adequately funded to lessen the impact of such actions should an emergency require their immediate sale. The only general, common comment with the selection of items was that the selections do contain elements of risk. In most cases educated guesses, based on historical trends, Security Assistance Officers' summations, and hypothesized conflict requirements represent the best information for procuring items that will not be eligible for

distribution in two to four years, in most cases. Given this reality, it is understandable that the trend in item selection has been on consumables, such as ammunition, because these represent relatively low risk procurements that can always be used by the MILDEPS if there is no foreign purchaser.

The general subject of disposition of the items raises one heretofore unanswered question: what can be done with items that are not sold and cannot be used by the services? Procedures for actual sales and for transfers of as yet unsold items are sufficient. However, from FY82 and FY83 there are two high-priced items in the Air Force inventory whose prospects for sale are questionable. While under the gun to get on contract in September 1982, DSAA ordered two AN/TPS-70 radars. These are the FMS versions of the AN/TPS-43s used by the Air Force. According to Lt Col Bill Leeper, the Air Force is fortunate to have this radar as a spare. Even though it is not exactly what the Air Force uses, it is the only spare of any kind, and, in his opinion, if the SDAF cannot sell it, then all the better for the Air Force. (23) The radar has been in inventory status since November 1985, and, along with its associated equipment, is valued at \$7,003,787. (16) While this may serve a benefit to the Air Force, it also represents \$7 million of SDAF capital tied up in inventory.

The Air Force also has \$7,387,500 in inventory in the form of twenty GPU-SA 30mm Gun Systems ("strap-on" gunpods). These were procured in FY83 and entered inventory status in December 1985. (17) The Air Staff originally requested these be

purchased, and they were added to an existing contract.

However, no buyer has yet to come forward and neither the Active nor the Reserve/Guard forces have a need for any more.

(23) This represents the single most expensive item of unsold SDAF equipment. Interview responses to this situation were inconclusive, but highlighted the disposal question. Those who see inventories as a benefit to readiness would prefer to keep items such as these as spares. Others, particularly those who feel these gun systems will never sell, see these inventories as unnecessary and only tying up capital that could be used otherwise. A search of the SDAF Operating Instructions reveals no procedures for disposal of these items. Items can be loaned or transferred to the MILDEPS, for a price, but what if there is no need? While awaiting an FMS customer, the SDAF is paying "1.5% per annum of the dollar value of the stored items."

(12:6) Technically, the AN/TPS-70 is strictly a foreign sale only item, whereas there appears to be no requirement in the Air Force for twenty spare gun systems. Also, according to one of those interviewed, there is about \$1.0 million worth of jeeps and \$1.3 million worth of combat vehicle crewman helmets in inventory. The total in inventory: less than 5% of total program procurements. There have also been cases where items have gone into inventory status for a few months but were subsequently sold ('B' model MAVERICK missiles, M60-A3 tanks). Changing political considerations may also create an unexpected inventory, such as when Congress denies the sale of certain items to a country that the SDAF had earmarked for the sale two

or three years previous , under a different political situation.

Nonetheless, this question must be addressed: how does the SDAF handle inventory that is not likely to sell? If the item can be used to meet an emergency requirement, and stockpiles are acceptable, then the item could stay in inventory. If cash flow and turnover are more desirable, then a method will have to be devised to liquidate the items and either recoup or write-off the loss. The latter proposal presents an accounting issue which would be difficult to reconcile with a revolving fund.

Revolving Fund. The law says that the SDAF will be a revolving fund. However, the fund is revolving only "within the limits established by Congress . . . [and] it is anticipated that the Congress will pass annual legislation which would adjust these obligational authority limits." (12:2) Interview questions 4, 6a, and 6b dealt with the concepts of a revolving fund and obligation authority.

During the course of these questions each respondent explained what he meant by a revolving fund. The consensus was that a revolving fund is one in which receipts (in the case of the SDAF this would be from sales) could be used for additional procurements (obligations) as soon as they were received back into the fund. This implied, and several respondents commented, that there should not be a yearly obligation authority. While this subject will be more fully discussed under Recommended Changes, the conclusion to be drawn here is

that the SDAF is not operating as a true revolving fund, as receipts and funds not obligated by the end of the fiscal year are credited to the "budgetary account (11X4116) and [are] unavailable for commitment pending further Congressional allocations." (2:22) The yearly obligation authority is, therefore, a "constraint on the revolving fund concept," according to one of those interviewed. However, this account is the SDAF account, and once obligation authority is given, the funds can be obligated up to the Congressionally-imposed limit. So, with some constraints, one could say that the SDAF is a revolving fund, but not within the strictest definition of the term. A further analysis of "revolving fund" and "obligation authority" will be presented below with the other recommended changes.

Recommended Changes

Multi-Year Obligation Authority. The 1985 General Accounting Office report recommended "3-year obligation authority rather than the current 1-year authority." Since "SDAF appropriations are contained in the foreign aid appropriations act," they can only be obligated for a one-year period, as with all foreign aid appropriations. However, if the SDAF obligation authority was considered as a weapons procurement, which get three-year appropriations, some of the problems identified in the report could be avoided. (18:3-4)

Two examples were cited by the GAO from FY 1984:

[Because] of the 1-year obligation, a number of high priority defense articles could not be purchased due to legal and contract negotiation difficulties during the contract award process.

- (1) Two of these problem cases resulted in not using \$10 million in SDAF obligation authority because the fiscal year ended before contracts could be awarded.
- (2) [After] 3 months of trying to buy the Multiple Launch Rocket System, DSAA learned that the contract for this weapon could not be negotiated before the close of the fiscal year. This resulted in DSAA reprogramming \$23 million to purchase lower priority ammunition. (18:3-4)

All but one of the interviewees concurred with this recommendation. As the lone dissenter, Mr. Reed thought multi-year obligation authority was unnecessary, that the SDAF obligation authority coincides with the services' budget submission, and that better planning by DSAA and more coordination with the services would preclude recurrence of the instances cited by the GAO. (25) The other respondents supported the GAO recommendation for essentially the same reasons, but several also emphasized that DSAA would benefit from increased procurement flexibility. The rush to obligate funds just to avoid losing them, a driving force behind the reprogramming concept, would no longer be there.

Based on the GAO report, DSAA asked Congress for three-year obligation authority for FY 86. The Congressional Presentation Document for that year stated,

Such a change would allow a close synchronization of SDAF procurement planning with the budget and acquisition processes of the military departments, which already operate on a three year basis. This will blend SDAF procurements into the normal acquisition and procurement cycle, rather than compress them into a single fiscal year. (5:48)

The above request having been denied, DSAA has proposed

two-year obligation authority in its FY 87 request, for essentially the same reasons. (4:108)

The proposed change is one designed to improve the management and operation of the fund, and fares favorably in light of Congressional intent and the fund's objectives. While it should permit more flexibility in procurements, there would be no need to alter the content or frequency of Congressional reports (although the Congress could always exercise this option if they so desired). Based on the interviews there appears to be wide-ranging support for this proposal at all levels.

Obligation of Receipts Without Waiting for Yearly Obligation Authority. The GAO phrased this as "authority to use sales proceeds," and this option would place an emphasis on sales and turnover. The GAO envisioned those instances where the yearly obligation authority was reached and sales proceeds were credited to the SDAF account. Under the present law, DSAA must wait until Congress passes the next fiscal year's appropriations act before it can obligate these funds. If Congress is late passing the act, then DSAA must wait. Had there been an opportunity to enter into a contract in the interim, DSAA would not have been able to do so. This recommendation would "allow DSAA to turn over SDAF assets more rapidly, and avoid losing opportunities to exercise open contract options." This would also draw the SDAF procedures more in line with the MILDEPS, "which can immediately use sales proceeds to replenish their weapon stocks." (18:4)

All respondents agreed to this concept, and the effect is to make the SDAF a revolving fund, at least more so than at present. One respondent envisioned the SDAF operating in the following manner: The only limitation would be the capitalization level, say \$1.0 billion, with no yearly obligation authority limit. If there was \$600 million tied up in equity (on contract plus inventory), then DSAA could obligate up to \$400 million for new procurements. Then, as sales are made, which would mean less on contract or in inventory and more "cash on hand," the cash on hand would represent the next year's obligation limit.

This represents one person's view of how the SDAF could operate as a revolving fund. The only constraint on procurement would be the capitalization level. The GAO suggested that this would allow more rapid turnover, would not necessarily cause DSAA to request yearly capitalization level increases, and "Congress would be requiring DSAA to demonstrate that it has chosen items which are being sold." (18:4)

Other interviewees suggested other considerations. Mike Burgess agreed, but with the caveat that all procurements, especially those that would result due to an influx of sales revenues, go through the same screening and selection process used presently. (3) Another concluded that the services' Stock Funds are closest to truly revolving, but pricing in those funds includes charges for losses and obsolescence. Nonetheless, he agreed that the revolving fund concept would be appropriate for improving SDAF operations.

The law does state that the SDAF is to be a revolving fund, but subject to the yearly obligation authority imposed by Congress. This would have to be changed in the law. Appendix III of the GAO report contained draft legislation to allow this change in conjunction with three-year obligation authority. (18:13) Congressional reporting would not change as far as content is concerned, but the present yearly figures regarding equity and obligations would most likely have to be presented on a "snap shot" basis. This would preclude misinterpretation or the perception that the fund was over-obligated, as might happen if yearly summaries were presented. The general feeling among the respondents was one of pessimism regarding acceptance of the proposal, as it had not been accepted following the GAO recommendation. One individual felt that Congress might fear losing control of what items were procured; however, if DSAA stayed within the same list of items as presented with the annual report, this would not be a problem. Congress could also request supplemental reports, if necessary.

Major Weapon Systems Sales. Proposed by Mike Burgess, this would permit expansion of the SDAF so as to allow obligations for major weapon systems, such as aircraft, attack helicopters, and Patriot missile systems. In theory, five of the other respondents agreed, but all eight saw the need for a significant increase in the capitalization level, which all also agreed was not realistic today. While the SDAF could significantly reduce the lead time for such items, the unit prices are such that very few could be procured without taking

up most of the obligation authority, at least at the present level. With high value items one is also looking at high risk (of not selling immediately). If the concern is for turnover and sales, then high risk items are not readily or eagerly funded. (3) One individual suggested there might be modest (not defined) sales of such items at a capitalization level of \$2.1 billion. This was the level envisioned back in 1981. (39:xii)

However, this proposal does not stack up well against the objectives of the fund, nor with Congressional intent. These types of items have not been in high demand on an emergency basis, although the possibility exists. Diversions of these types of items are very rare. We did transfer some F-4 aircraft to Egypt at the expense of an Air National Guard unit, according to one of the interviewees, but that was the only case of any magnitude that he could recall. In 1982, Congress put a halt to DOD plans to use the SDAF to fund FX (experimental fighter) development and reiterated their perception of the fund's use:

[The] subcommittee clearly envisioned that the SDAF would be used for relatively unsophisticated high demand items and which are also used by U.S. military forces. It was not envisioned to include sophisticated or expensive defense items such as fighter aircraft and the most recent generation of tanks. (38:viii)

Nor are the benefits to the fund obvious. This suggestion only makes the list of possible items larger. There is the possibility of a greater dollar value turnover, but there is likewise the chance of a greater dollar value of tied-up

capital and the associated maintenance fees. In general, this suggestion did not receive enthusiastic support from the interviewees because it is not seen as a realistic proposal at this time.

Procurement-for-Payback. This is also known as replacement-in-kind. There are two versions of this proposal, which is "designed to speed payback to the U.S. Service for loss of an inventory item." As proposed by DSAA in FY 86, the procured front-line item would be used as a payment to U.S. inventory to replace a similar or like item, or the front-line item would be sold directly to an FMS customer, thus precluding a withdrawal. (5:49) This version differs slightly from what the GAO recommended. The concept is the same; however, the GAO suggested purchasing "equipment not approved for release to foreign governments." (18:1) The distinction lies in the interpretation of "releasable to foreign countries." The GAO has interpreted this to mean "at the time the contract is awarded." DSAA feels that it means "items which it expects will be releasable under National Defense Policy (NDP) guidelines at the time of the sale." While the GAO did not initially agree with DSAA's interpretation, it did agree to support the concept. (18:5)

The GAO used the same example DSAA used when DSAA requested procurement-for-payback for FY 86. As Under Secretary of State for Security Assistance, Science and Technology, the Honorable William Schneider, Jr., testified,

We are proposing . . . [a] modification [to the SDAF that] would permit the fund to be used to

acquire defense articles and services in anticipation of their transfer to the Department of Defense to replace items transferred from DOD inventory to foreign countries. This would assist in maintaining the readiness of the U.S. Services while facilitating the transfer of less advanced systems in the inventory of DOD to foreign countries. (36:26)

Both sources used the example of AIM-9M missiles. AIM-9L missiles are withdrawn from stock for sale to foreign countries, but there is no longer a production line for AIM-9Ls. The AECA prevents the SDAF from funding additional procurements of AIM-9Ms to replace the withdrawn AIM-9Ls, so readiness is seriously effected. (18:5) AIM-9Ms are not releasable for sale to foreign countries. The risk of buying older generation equipment, say AIM-9Ls if they were still in production, was previously mentioned in Chapter III. Should no buyer materialize, the services could be left holding outdated equipment. The GAO concluded that procurement-for-payback would reduce that risk, is consistent with the service policy of purchasing new equipment with sales proceeds from older equipment, and Congress would still receive notification. (18:6)

All persons interviewed saw the desirability of this proposal, although most would prefer this be done only on a case-by-case basis. According to one respondent, "replenishment actions" are done routinely, where front-line systems, such as TOW-2 missiles, are procured to replace I-TOW missiles that have been withdrawn. (TOW-2s have a limited releasability and are the next generation of the I-TOWs) The difference here is one of intent. The SDAF was not designed to

procure equipment for the services. Approval to do so would also cut across Congressional committee jurisdictional lines (primarily those of the House Foreign Affairs Committee and the House Armed Services Committee). These committees are very protective of both their own and each other's boundaries.

So while this proposal may be objectionable on the basis of intent, it does fall within the guidelines of the SDAF objectives, particularly as pertains to readiness. The performance of the fund would benefit in that more rapid turnover would result, assuming that the service did not get drawn down too much for too long. In this regard, readiness would suffer at the expense of a foreign policy decision, at least for a short time, unless the older item was not released until its replacement (newer item) was received. The prospects for acceptance of this recommendation are unclear. From the interviews, three replied that Congress did not understand the concept when the FY 86 request was denied. If DSAA can better present its case next time, perhaps it will have a better chance.

Combinations of Recommended Changes. These changes can be readily grouped into two categories: those concerned with operation and management of the fund, and those related to types of items procured. The former category includes multi-year obligation authority and obligation of sales proceeds; the latter, expansion to allow major weapon systems sales and procurement-for-payback.

The changes concerned with particular item procurements do

not become more or less acceptable when grouped with any other proposal. In other words, these two recommendations will be accepted or rejected purely on their own merits. For instance, procurement-for-payback will be approved, or not, regardless of the status of multi-year obligation authority.

However, the recommendations for multi-year obligation authority and authority to obligate sales proceeds within the same fiscal year together present some interesting prospects. The management of the SDAF would end up in the lap of DSAA, with Congress still retaining oversight control. The fund could operate as follows:

Congress would specify the capitalization level for the next two or three years. DSAA would be allowed to obligate their "cash on hand," not to exceed the capitalization level. Flexibility in contracting would be one benefit, and the turnover would most likely be faster than it is today. This combination would place more emphasis on sales and turnover, but it would also require better item selection, with perhaps more items in the low risk category.

Adoption of either or both of the other recommendations would provide more flexibility in terms of item procurement, but would likely entail procuring items with more risk. How the experts see the future of the SDAF is the subject of Chapter U.

U. Conclusions and Recommendations

In its short history the Special Defense Acquisition Fund has done what it has supposed to do. That is the general consensus of the experts interviewed. This research has shown that defense articles were procured and delivered, many in reduced lead times, and U.S. forces have been faced with fewer withdrawals and diversions. Additionally, there are many more such articles already in the procurement pipeline. The SDAF will never, at its present level, be able to handle an emergency such as the Yom Kippur War by itself. It was not designed for that. But it was designed to respond to situations at lower levels of conflict, and to provide a buffer against massive withdrawals from U.S. forces' inventories. In fact, the Air Force and the Navy do not presently have items with withdrawal and diversion problems, and the Army is getting "healthier." (23,25,et al) From a readiness standpoint the SDAF has been beneficial. But aside from this, what else can be said about the SDAF?

Based on this research, one can logically conclude that the SDAF has operated within its original intent and applicable laws. There were a few problems - better still, growing pains - in these first few years: hurried procurements, an attempt to fund FX research and development with SDAF funds, and even an accusation of exceeding the capitalization level by \$54 million. This latter instance resulted from improper accounting techniques rather than from mismanagement.

(22,14,24) That these were isolated instances does show that those managing and operating the SDAF on a daily basis have learned, adjusted, and progressed to make the fund work better. And that is one aspect discovered during the course of the interviews: everyone was concerned with how the SDAF was performing and honestly and objectively sought to make it better. Nonetheless, there have been problems arising from missed procurement opportunities, and these are the result more of structure than anything else.

With the fund tied to one-year money, contracts for defense equipment will be missed again. This is even more likely with the recent Competition in Contracting legislation and emphasis. It will be harder to get in on an existing contract. Also, defense equipment, for the services, are on three-year authority, so there is no need for the services to try to get the contracts signed before the end of the fiscal year. And SDAF procurements are not driving forces behind these contracts: SDAF procurements usually make up no more than 10% of the total contract. Therefore, reprogramming, which is the SDAF's way of obligating as much of its obligation authority as it can, can be expected to continue. The selection process is not being allowed to work as designed because of budgetary constraints. This is not to suggest that there be no constraints. However, as suggested in Chapter IV, this fund could operate as a revolving fund, as originally intended, with the major constraint being the capitalization level. This would require multi-year obligation authority and

permission to obligate sales receipts when received into the account. Revised reporting procedures would most likely accompany this change, but it is felt that the added burden of more paperwork and briefings would be more than offset by the "hands off" management approach Congress would be granting.

There are some issues that need to be addressed, no matter what, if any, changes might be forthcoming. Intent, in the form of the focus of the SDAF, should be clarified. Is the emphasis on turnover and sales? Are stockpiles an acceptable result of SDAF procurements? Or, perhaps the present situation is acceptable, with no "limits" on what happens to procured items. Presently there is nothing that says, "There will be no more than XX% of obligations in inventory status;" nor, "DSAA is required to sell XX% of all obligations within YY years." In other words, the percentages of sales and items in inventory, whatever they might be, are both "about right." It is up to the Congress, perhaps after some prodding by DSAA, to answer these questions, if it has a mind to.

Another issue, primarily for DSAA to resolve, is how to dispose of items that do not appear to be salable. Again, a little guidance from Congress on the aforementioned focus of the SDAF would help DSAA answer this one. Also, the services will have a significant input on this issue. For instance, even though the AN/IPS-70 may not sell, and even if DSAA wants to somehow unload it from its inventory rolls, the Air Force may fight to keep it as a spare. Nonetheless, the SDAF must develop some procedures, particularly from an accounting

viewpoint, to resolve these types of situations. They may be rare exceptions. But the question remains, "What does DSAA do when an item will not sell and cannot be used by the respective service?"

Three recommendations logically follow these conclusions. The most important recommendation is the need to make the SDAF a revolving fund in the sense that was previously mentioned. This would necessitate multi-year obligation authority and permit obligation of receipts. In fact, under the scenario presented in Chapter IV, obligation authority would disappear! Capitalization level would be the only budgetary constraint on SDAF operations. Appendix D contains draft legislation for this recommendation. SDAF procurements would, therefore, have to be considered as weapons procurements, which they are in all cases, rather than foreign aid procurements, which they are in only a majority of the cases. This is the one change that would allow this productive, necessary, albeit relatively small instrument of foreign and defense policy, to be even more productive and beneficial to all concerned.

DSAA needs to prod Congress, primarily the House Foreign Affairs Committee, for its position on stockpiles and/or sales. As previously mentioned, this distinction needs to be clarified. It is recommended that DSAA do this at its earliest opportunity. Congress's answer will facilitate a response to the final recommendation: to develop a policy and/or procedure for disposal of items that are not likely to sell and are not going to be transferred to the MILDEPS. When the SDAF was

proposed in 1981, several Congressmen inquired about unsold inventories. The reply was, essentially, that none were anticipated. (1:A4,A5,A7) The present situation suggests that it is time for DSAA and the services to answer this question, and this research supports that recommendation.

Finally, as a follow-on to this research, one might conduct a detailed evaluation of the first recommendation: to make the SDAF into a truly revolving fund. This analysis should be from an economic perspective, to include budgetary considerations such as revenue reduction and the consequences of competition for defense contracts, as they apply to the SDAF. Such an analysis would, in all probability, add further credence to the results and conclusions of this research. The SDAF has made some significant contributions to the goals of both foreign policy and national defense, and improvements and refinements can only help it to improve its record.

Appendix A: Interview Guide

This interview is designed to provide the latest consensus on the operation and future of the Special Defense Acquisition Fund (SDAF), and to gather the opinions of individuals closely associated with the SDAF, as well as those of knowledgeable academicians. The purpose of this research is to synthesize and analyze the objectives, performance, and ongoing issues of the SDAF. The information from all interviews will be consolidated. Specific references and citations may be used for justifications and/or examples. The interviewer realizes that the respondent may not be sufficiently prepared or knowledgeable to completely answer all questions. Anonymity will be given if requested, either in whole or in part. If anonymity is requested for only certain responses, please state so at the appropriate time. Please do not reference any classified information.

Do you want anonymity? Yes _____ No _____

Interviewee Name: _____

Rank: _____

Duty Title: _____

Organization and Office Symbol: _____

Phone Number (AUTOVON): _____

Date of Interview: _____

Questions

1. What do you see as the intent of the SDAF upon its inception?
2. Do you think the intent of the parties involved (Congress and DOD) with the SDAF has changed since 1981?
3. Which of the fund's objectives do you consider the most important for determining which items are procured?
4. Suppose DSAA could establish its own level of obligation authority. Should that level be set at a specific dollar amount, or should some other criteria be used, such as a percentage of all requests? (Unlimited obligation authority will be addressed later)

If some other method was used, would you have to establish criteria for prioritizing requests, and if so, what would you use?

5. Given that procured items are not immediately available for sale, and political conditions may change over the course of a long lead-time procurement, how many items have gone into the MILDEP inventories? (In terms of number of items or dollar amounts)

How are these items managed - who manages them, who is responsible for their maintenance and accountability, etc.?

What are your thoughts on the subject of these "unsold procurements?"

6. Several changes to the SDAF, listed below, have been proposed. Do you favor these, why or why not?
 - a. Two- or three-year obligation authority, as with other procurement-type accounts;
 - b. Provisions to allow obligation of payments made to the fund in addition to the Congressionally-mandated obligation authority; in other words, could the fund be designed to be truly revolving and, in essence, self-sustaining?
 - c. Expansion of some type to allow for major weapon systems sales;

d. "Procurement-for-payback" - which "would enable the SDAF to be used to procure technically advanced, front-line weapon systems. Although such systems would be ineligible for release to foreign governments, the systems would serve to replace items drawn from U.S. service stocks for foreign sales." (27:28)

e. Realign the selection and acquisition process to parallel other acquisition cycles.

7. Can withdrawals and diversions be eliminated by using the SDAF? If not eliminated 100%, at least to some acceptable (to the appropriate service) level, if not so already. In other words, are we, or could we be, using the SDAF as a primary tool to manage withdrawals and diversions?

Should this area receive more emphasis, perhaps to the point of a stated objective of the SDAF?

8. Would an increase in actual sales volume have any effect on perceived Congressional resistance to expansion of the SDAF?

What results, if any, are needed to foster support for any significant changes/expansion?

9. What do you feel are the strongest aspects of the SDAF?

Its greatest shortcomings?

10. Do you feel that, historically, the SDAF has been successful?

Has it shown good progression (i.e., learned from its mistakes, built on its successes)?

11. What do you perceive the future of the SDAF to be?

12. Are there any other comments or suggestions you would like to add?

Appendix M. Research Participants

The following individuals granted interviews which greatly aided in the attainment of the research objectives.

Burgess, Michael Jon, GS-12. Logistics Management Specialist, Air Force Logistics Command, International Logistics Center, Special Projects Division.

Hirsch, Michael S., GM-14. Supply Management Representative, Office of the Assistant Deputy Chief of Staff, Logistics (Security Assistance), Department of the Army.

James, Langley B., GM-15. Deputy Chief, SDAF Division, Defense Security Assistance Agency/Plans-SDAF.

Leeper, William C., Lt Col, USAF. Chief, Acquisitions Management, International Programs, Department of the Air Force.

Luckenbill, Clive D., GS-13. Associate Professor, Defense Institute for Security Assistance Management.

Mortsof, Larry A., Dr., GS-13. Professor and Deputy for Consultation, Defense Institute for Security Assistance Management.

Reed, Gilbert R., III, GM-14. Special Assistant, Navy Comptroller, Department of the Navy.

Samelson, Louis J., Dr., GS-13. Professor, Deputy for Consultation, and Editor, The DISAM Journal, Defense Institute for Security Assistance Management.

Appendix C: Proposed and Actual Procurement Summary

Planned Procurements

Item	FY82	FY83	FY84	FY85	FY86	FY87
M60A3 TANKS	XX	XX	XX	XX	XX	
M198 HOWITZERS	XX	XX	XX	XX	XX	XX
I-TOW/TOW-II MISSILES	XX	XX	XX	XX	XX	XX
AIR-TO-AIR MISSILES	XX	XX	XX	XX	XX	XX
TACTICAL RADIOS						
(VRC-12/PRC-77)	XX	XX	XX	XX	XX	XX
INTERMEDIATE FIGHTER	XX	XX	XX			
SURFACE-TO-AIR MISSILES/						
GUN-SYSTEMS	XX	XX	XX	XX	XX	XX
AIR-TO-GROUND MUNITIONS	XX	XX	XX	XX	XX	XX
INFANTRY/CAVALRY FIGHTING						
VEHICLES		XX	XX	XX	XX	XX
UTILITY/ATTACK HELICOPTERS		XX	XX	XX	XX	XX
MULTIPLE-LAUNCH ROCKET						
SYSTEMS		XX	XX	XX	XX	XX
ANTI-TANK ORDNANCE		XX	XX	XX	XX	XX
ANTI-SHIP/ANTI-RADIATION						
MISSILES		XX	XX	XX	XX	XX
TACTICAL RADARS			XX	XX	XX	XX
INFANTRY EQUIPMENT/ORDNANCE			XX	XX	XX	XX
AIRCRAFT LONG-LEAD SUPPORT			XX	XX	XX	XX
MILITARY VEHICLES			XX	XX	XX	XX
AMMUNITION (GENERAL, ALL TYPES)				XX	XX	XX
SUPPLY SUPPORT PROCUREMENT					XX	XX

NOTES:

1. Projected procurements of these candidate items were usually presented in three year blocks. Therefore, if an item shows up for five consecutive years, that means that it was projected to be procured the first year as well as the following two years.

2. Most of the end items above also contained necessary support equipment, ammunition, etc.

(8:39;7:49;6:49;5:49;4:108-9)

Actual Procurements Through FY 1984

Quantity	Item/Nomenclature	Value in Millions
54	TANKS (M60A3)	\$68.5
24K	TANK AMMO (105MM)	12.8
108	M198 HOWITZERS	42.1
122K	HOWITZER AMMO (155MM)	40.2
75	ARMORED PERSONNEL CARRIERS	11.9
621	JEEPS	9.5
7400	RADIOS (VRC-12/PRC-77)	15.4
-	HARPOON LONG LEAD	10.0
-	COMSEC EQUIPMENT	9.9
2	TPS-70 RADARS	17.1
120	MAVERICK MISSILES (TV)	6.1
20	GPU-5A GUNPODS/AMMO	8.4
150	CBU-87 CEM	6.0
4	PHALANX CIWS/AMMO	13.6
3K	SRBOC CHAFF ROUNDS	3.0
1.7K	BASIC STINGER	80.7
1.2K	I-TOW MISSILES	7.4
2.1K	TOW-II MISSILES/LAUNCHER	23.3
200	81MM MORTAR/ILLUM AMMO	1.9
3.8K	MACHINE GUNS (M2/M60)	17.7
3.8M	MACHINE GUN AMMO	4.5
56M	5.56 RIFLE AMMO	8.9
SK	COMBAT VEHICLE CREWMAN HELMETS	1.3

(19:A1-A3)

Appendix D: Draft Legislation To Amend the Arms Export Control Act and to Allow for Multi-Year Obligation Authority and Authority to Use SDAF Sales Proceeds in Year of Sale

To allow SDAF to use sales proceeds in the year of sale and to allow Fund monies generally to be available for obligation for more than one year, section 51(c) of the Arms Export Control Act, as amended, 22 U.S.C. 2795(c), would have to be amended by striking out paragraph (2) and inserting in lieu thereof the following:

Amounts in the Fund shall be available for obligation for a period of ____ years in such amounts as are provided in appropriations acts.

The annual appropriations act would have to contain the following language;

There are authorized to be made available for the Special Defense Acquisition Fund \$ ____ in addition to \$ ____ derived from sales of Defense Articles and Defense Services in fiscal year ____, to remain available for obligation during fiscal year ____ and ____ succeeding fiscal years.

(18:Appendix III)

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UITA

Major John M. Miller [REDACTED]
[REDACTED]
[REDACTED]

[REDACTED] he attended the United States Air Force Academy from which he received a Bachelor of Science Degree in International Affairs and History in June, 1974. After completing Undergraduate Navigator Training at Mather AFB, California, he was assigned as a C-141 navigator with the 18th Military Airlift Squadron, McGuire AFB, New Jersey. In February, 1979, he was assigned to Headquarters, 21st Air Force, also at McGuire, as a Flight Planning Officer and later as the Chief, Reports and Briefing Division. He served as an Instructor Navigator, Chief, Unit Standardization and Evaluation, and as a Flight Commander while assigned to the 452nd Flying Training Squadron, Mather AFB, from 1981 through 1985. He attended Squadron Officers School in 1978, and in 1983 he completed the Air Command and Staff College Seminar Program while also earning his Masters in Science Degree in Systems Management from the University of Southern California. In May, 1985, he entered the School of Systems and Logistics at the Air Force Institute of Technology, Wright-Patterson AFB, Ohio.

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This research combines a literature review and interviews to perform a synthesis and analysis of the Special Defense Acquisition Fund. The factors leading up to the creation of the fund were examined, along with the intentions of the various participants.

The implementing legislation, procedures, and "results" of the fund's efforts were presented. These sections set the stage for an analysis of four recommended changes: multi-year procurement, reobligation of sales proceeds, expansion to allow for major weapon systems sales, and procurement-for-payback. Combinations of the above changes were also discussed.

This analysis concluded that DSAA should strive to make the SDAF a truly revolving fund, as was originally legislated. This would require that multi-year obligation authority and reobligation of sales proceeds be enacted also. These changes would foster better management and operation of the fund.